

DIRECT TESTIMONY

OF

MARK A. HANSON

TELECOMMUNICATIONS DIVISION

ILLINOIS COMMERCE COMMISSION

THE EL PASO TELEPHONE COMPANY

PETITION FOR SUSPENSION OR MODIFICATION OF SECTION 251(b) (2)
REQUIREMENTS OF THE FEDERAL TELECOMMUNICATIONS ACT
PURSUANT TO SECTION 251(f) (2) OF SAID ACT; FOR THE ENTRY OF
INTERIM ORDER; AND FOR OTHER NECESSARY RELIEF

DOCKET NO. 04-0238

MAY 20, 2004

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Q. State your name and business address.

A. My name is Mark A. Hanson. My business address is 527 East Capitol,
Springfield, Illinois 62701.

Q. By whom are you employed and in what capacity?

A. I am employed by the Illinois Commerce Commission as a Rate Analyst in the
Telecommunications Division.

Q. Please describe your education and occupational background?

A. I received a Bachelor of Science degree in Commercial Economics from South
Dakota State University in 1978. I received a Master of Science degree in
Economics from South Dakota State University in 1981. From 1981 to 1987, I
was employed by the South Dakota Department of Transportation as a
Transportation Planner. From 1987 to 1989, I was enrolled in the doctoral
program in Economics at Iowa State University. While at Iowa State, I was
employed as an instructor in the Agricultural Business department and also as
an instructor in the Transportation/Logistics department. From 1990 to 2000, I
was employed by Illinois Power Company as a Forecast Specialist, Regulatory
Matters Specialist, Gas Supply Specialist, and Competitive Pricing Specialist. I
joined the Staff of the Commission in July 2000.

Q. Briefly describe your duties with the Illinois Commerce Commission?

24 A. My responsibilities include reviewing wholesale and retail tariff filings for both
25 competitive and non-competitive telecommunications services, providing
26 support to other Commission Staff, and analyzing cost study issues in
27 docketed cases that have cost of service and rate implications. I am also
28 responsible for reviewing the managerial, technical, and financial capabilities
29 of companies seeking approval to do business in Illinois as competitive local
30 exchange carriers.

31

32 **Q. Have you previously testified before any regulatory agencies?**

33 A. I have testified before this Commission in several different proceedings
34 concerning telecommunications matters. Those proceedings include Docket
35 Nos. 98-0252/98-0335 (Consol.), Docket No. 00-0641, Docket Nos. 00-
36 0511/00-0512(Consol), Docket No. 01-0279, Docket No. 01-0515, Docket No.
37 00-0812, Docket No. 01-0662, Docket No. 02-0365, Docket No. 02-0864,
38 Docket No. 03-0239, Docket No. 03-0593, and Docket No. 03-0596. I have
39 also testified before the Federal Energy Regulatory Commission

40

41 **Q. What is the purpose of your testimony?**

42 A. The purpose of my testimony is to address the cost information submitted by
43 The El Paso Telephone Company ("El Paso") as part of its petition to this
44 Commission under Section 251(f)(2) of the Federal Telecommunications Act of

1996 ("the Act").¹ El Paso's Petition asks this Commission to suspend the Federal Communications Commission's ("FCC") mandate under Section 251(b)(2) of the Act that El Paso implement wireline to wireless local number portability ("LNP") in its service territory.

Q. What does Section 251(f)(2) provide for?

A. Although I am not a lawyer, it is my understanding that Section 251(f)(2) of the Act authorizes this Commission, upon petition, to suspend or modify the application of the obligations imposed on rural local telecommunications carriers² under Section 251(b) or (c) of the Act if the Commission determines that such suspension or modification:

(A) is necessary-

(i) to avoid a significant adverse economic impact on users of telecommunications services generally;

(ii) to avoid imposing a requirement that is unduly economically burdensome ; or

(iii) to avoid imposing a requirement that is technically infeasible; and

(B) is consistent with the public interest, convenience, and necessity.

Q. In light of Section 251 (f) (2) and El Paso Petition and Direct Testimony what does your testimony specifically address?

A. I will address the cost analysis supplied by El Paso to support its claim that

¹ Petition of El Paso Telephone Company for Suspension or Modification of the Applicability of the Requirements of Section 251(b) of the Federal Telecommunications Act of 1996, 47 U.S.C. 251 (b) (2) pursuant to Section 251(f)(2), Docket No. 04-0240("Petition")

² Section 251(f)(2) applies to a "local exchange carrier with fewer than 2 percent of the Nation's subscriber line installed in the aggregate nationwide. 47 U.S.C. § 251(f)(2).

69 implementing the requirements of wireline to wireless LNP in its service territory
70 would impose a significant adverse economic impact upon it and its customers.
71 I will propose some suggested changes to the cost analysis that I believe may
72 result in a more accurate projection of a cost per customer than the
73 Company's.

74
75 **Q. What is your understanding of the role of the Commission in the review of**
76 **LNP cost recovery?**

77 A. It is my understanding that the Commission has had no role in determining the
78 appropriate rates for LNP cost recovery to date. To my knowledge, all cost
79 recovery for LNP associated costs is obtained via incumbent local exchange
80 carrier tariffs filed with the FCC pursuant to that agency's rules and orders.³

81
82 **Q. Please describe your understanding of the federal rules regarding**
83 **allowable cost recovery for LNP.**

84 A. The rules for recovery of carrier-specific costs directly related to providing
85 number portability are contained in Section 52.33 of the FCC's rules. 47 C.F.R.
86 § 52.33. These rules specify that LNP query charges may be recovered via a
87 charge to carriers and that a monthly charge may be assessed on end-users.⁴
88 These rules also specify that the monthly charge may take effect no earlier than

³ See 47 C.F.R. § 52.32 (describing the recovery and allocation of shared costs of LNP implementation); 47 C.F.R. § 52.33 (describing the recovery of carrier specific LNP implementation costs through end user and query charges); *In The Matter of Telephone Number Portability, Third Report and Order*, CC Docket, No. 95-116, 13 FCC Rcd 11701, 11776 142, 147(rel. May 12, 1998) ("Third Report and Order") (allowing but not requiring ILECs to recover their carrier specific costs directly related to LNP provisioning through federally tariffed end-user and query charges.)

February 1, 1999 and may end no later than five years after the change goes into effect.⁵

Q. Are you familiar with tariff filed with the FCC for LNP cost recovery?

A. Yes. I am aware that SBC Illinois has recovered its LNP costs via rates contained in its federal tariff, FCC #2. The rate for the LNP end-user surcharge established in that tariff is \$0.28 and has been in effect since February 1, 1999. I am also aware that SBC Illinois filed to remove the rate for this service from its tariffs, effective January 31, 2004 in FCC transmittal 1380. I have not reviewed the cost development for this rate.

I am also aware of the NECA Tariff F.C.C. No. 5, 482nd Revised Page 1, which adds Telephone Service Company to the list of companies applying LNP end-user rates and LNP query service. The rate for the basic LNP end-user charge established in this filing is \$0.25 and the LNP query charge is \$0.002.

Q. Please describe the types of LNP that carriers are required to provide.

A. Until recently, the LNP requirement consisted primarily of local exchange carriers ("LECs") having to provide local number portability to other requesting LECs. This type of LNP arrangement can be referred to as wireline to wireline LNP. On November 10, 2003, the FCC clarified its earlier orders and

⁴ Id.

⁵ Id.

determined that LECs must also provide LNP to wireless carriers.⁶

Q. Did the Wireline to Wireless LNP Order address cost recovery?

A. To the best of my understanding, the Wireline to Wireless LNP Order does not address any cost recovery issues directly. The order does acknowledge that there are outstanding issues regarding the recovery of costs associated with routing calls between wireline and wireless carriers, but concludes that these issues are outside the scope of the proceeding.⁷ Further, the order indicates that calls to ported numbers will not be rated differently than calls to non-porting numbers.⁸ As such, it can be inferred that the order prohibits the wireline carrier from recovering the incremental cost of routing calls to numbers ported to wireless carriers from its own customers via minute of use charges.

Q. Did the Wireline to Wireless LNP Order address the issue of the economic burden on either end-user customers or porting carriers?

A. To my knowledge, the order does not address any economic burden issues.

Q. What circumstances would warrant the concern of the Commission with regard to the burden on end-user customers and El Paso in this proceeding?

A. There are two cost-related circumstances that are of concern. First, El Paso

⁶ *In the Matter of Telephone Number Portability, CTIA Petitions of Declaratory Ruling on Wireline to Wireless Porting Issues*, Memorandum Opinion and Order and Further Notice of Proposed Rulemaking, CC Docket No. 95-116, 29-30 (rel. Nov 10, 2003) ("Wireline to Wireless LNP Order")

⁷ *Id.* at 39-40

131 does not currently provide wireline to wireline LNP. Because of this fact, El
132 Paso would need to recover all LNP related costs for the sole purpose of
133 providing wireline to wireless LNP. This is in contrast to carriers that already
134 have LNP capabilities, whose incremental cost of extending the capability to
135 wireless carriers is minimal at best.

136
137 Second, the issue of cost recovery for transit and transport has not yet been
138 resolved. Because of its current routing arrangements, all calls from El Paso
139 local exchange customers to numbers that have been ported (from El Paso to
140 wireless carriers) would incur routing and transport costs. Without a recovery
141 mechanism in place, it cannot be determined, as of this date, how these costs
142 will impact El Paso or its end-users.

143
144 **Q. Have you reviewed the cost information provided by El Paso?**

145 A. Yes. In general, I agree with the format of the cost development as put forth by
146 El Paso. It appears to be consistent with the format with LNP end-user charges
147 in NECA Tariff No. 5. However, I do have some concern with some of the
148 items used in the cost development. I have prepared two scenarios of cost per
149 subscriber of providing LNP for El Paso. Scenario 1 is set forth in Schedule 3.1
150 of my direct testimony and Scenario 2 is set forth in Schedule 3.2 of my direct
151 testimony. The remainder of my testimony addresses my concerns and the
152 proposed changes to the cost per subscriber estimate provided by the
153 company. These schedules do not represent endorsements as the appropriate

⁸ Id. at 28

154 end-user charges should be if El Paso were to provide LNP. Rather, they are
155 my attempts to provide a more reasonable cost per subscriber for the purpose
156 of aiding the Commission's decision regarding this petition.

157
158 **Q. Why are you providing two scenarios and what are the differences**
159 **between them?**

160 A. There is only one difference between the two scenarios. In Scenario 2, I have
161 removed transport and transit costs as a component in estimating the cost per
162 subscriber of providing LNP. There are a couple of reasons for doing so.

163
164 First, and I believe most important, there is uncertainty with respect to who is
165 ultimately responsible for transport and transiting costs associated with porting
166 numbers from the LECs to wireless carriers. As I mentioned before, the FCC's
167 order mandating LNP to wireless carriers determined that issue was outside the
168 scope of that proceeding. The FCC may determine that wireless carriers rather
169 than LECs are responsible for those costs. In that event, it certainly would not
170 be appropriate to use these costs for estimating potential adverse impact to El
171 Paso and its customers since those costs would be borne by the wireless
172 carrier. On the other hand, the FCC may determine LECs rather than wireless
173 carriers will be responsible for transit and transport costs. In that case, it would
174 be inappropriate to not consider those costs in estimating potential adverse
175 impacts to El Paso and its customers.

177 Second, the levels of transport and transit costs are very sensitive to the
178 assumptions about the number of customers who elect to port their number to a
179 wireless carrier and the amount of usage of those customers. Since this is
180 such a recent requirement mandated by the FCC, there isn't much information
181 available upon which to develop a forecast of how many customers may desire
182 to use this service. Anecdotal evidence suggests that, at this point, demand
183 has been rather low. However, since the service is so new, that may change.
184 Also, usage estimates are based on an average customer, perhaps the type of
185 customer who would use this service may differ from the "average" LEC
186 customer. At this point, there is insufficient evidence to say. Also, there may
187 be some data limitations that make it difficult to take a LEC's historic minutes of
188 usage numbers and project what levels of usage would be subject to transport
189 and transiting costs even if a good forecast of customers porting numbers to
190 their cell phones were available.

191
192 For these reasons, I have decided to present a scenario including transport and
193 transit costs and a scenario without those costs. As I mentioned, I believe the
194 most important issue is the uncertainty with respect to cost recovery. Until the
195 FCC resolves this issue, I believe it is appropriate to assume that the LEC will
196 incur those costs. Staff witness Jeffrey Hoagg is using scenario 1 costs in his
197 analysis of the potential adverse economic impacts upon the company and its
198 customers. However, I present Scenario 2 as well so the Commission can
199 assess potential adverse economic impacts to El Paso and its customers

absent the transport and transiting costs.

Q. What cost adjustments are common to both scenarios?

A. In both scenarios, I have removed the upfront amount of regulatory and legal fees that are listed as start up costs. These costs appear to be discretionary in nature and borne by the management of the company to provide it with information and advice for protecting the interests of the company. I do not oppose the recovery of such costs, but I don't believe that these are costs that should be recovered from end-users via a LNP surcharge.

I have also reduced the amount of customer education expense. The company projected a mailing twice a year to its customers informing them of the ability to port their local exchange numbers to a wireless provider. I am unaware of any requirement that the company should inform its customers of the ability to do this on a biannual basis. My scenario includes the cost of one initial mailing to customers to inform them of the ability to port their phone number to a cell phone.

My last adjustment is with respect to employee education. Given the expense of the training associated with employee education and the size of the company, I believe it would be imprudent to send more than one technical employee to receive the training. Both cost scenarios I present only assume one employee receiving technical training.

223

224 **Q. Do you have any other concerns with the cost estimates provided by the**
225 **company?**

226

227 A. Yes. Putting aside the issue of whether such costs are most appropriately
228 recovered by the customer, I cautiously accepted the estimates provided by the
229 company in my Scenario 1 calculations. However, as was mentioned
230 previously in this testimony, I have concerns with the data concerning transport
231 and transit costs.

232

233 Based on the response to Staff Data Request 2.37, I -have a concern about the
234 calculation of transport and transit costs for two reasons. First, it remains
235 unclear whether the minutes for some local calls were counted twice--once as
236 an originating minute, and once as a terminating minute. Second, it remains
237 unclear as to how extended area service ("EAS") calls were treated in the
238 calculation. EAS routes are unique between carriers, and as such, whether
239 they should be included in the local minutes of use for the purpose of
240 calculating transport and transit costs is not a trivial matter. I am not convinced
241 at this point in time that the costs associated with transporting EAS calls for
242 ported customers will continue to be the responsibility of the wireline carrier.
243 While accepting the estimates provided, I expect the company to fully address
244 these concerns in its rebuttal testimony.

245

246 **Q. What is the purpose of your Schedule 3.3?**

247

248 A. In this schedule, I take my estimated cost per subscriber and determine what
249 percentage of the combined network access line charge plus subscriber line
250 charge that amount would be. I also calculate what percentage of the average
251 monthly customer revenue the estimated cost per subscriber would be. I do
252 this for both scenarios. This is to help assist the Commission in assessing
253 adverse negative economic impacts upon customers.

254

255 **Q. Does this conclude your direct testimony?**

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257 A. Yes, it does.

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